

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1125-02
Bill No.: SCS for HB 286
Subject: Drugs and Controlled Substances; Elderly; Federal-State Relations; Health Care; Health Department; Health, Public; Hospitals; Medicaid; Pharmacy; Social Services Department
Type: Original
Date: April 21, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Senior Rx	\$5,200,000	\$6,200,000	\$6,500,000
Total Estimated Net Effect on General Revenue Fund	\$5,200,000	\$6,200,000	\$6,500,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Federal Reimbursement Allowance*			
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

***Revenues and expenditures of approximately \$545 million annually would net to \$0.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Federal*			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

*Revenues and expenditures of approximately \$870 million would net to \$0.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Mental Health** assume this proposal would not fiscally impact their agency.

Officials from the **Department of Social Services - Division of Medical Services (DMS)** assume this proposal would not fiscally impact the DMS. The DMS states if the federal reimbursement allowance (FRA) program is not extended, additional funding would be needed to maintain the current level of services.

Officials from the **Department of Health (DOH)** believe that this proposal, over time, will increase participation by generic drug manufacturers in the Missouri Senior Rx program. RSMO currently requires generic manufacturers to pay the program a 15% rebate on their drugs that are utilized by the program participants while the national trend (including the Missouri Medicaid program) is 11%.

William M. Mercer, Inc. provided the DOH with an estimated cost savings associated with a reduction in the generic rebate percentage. DOH states that the current rebate contracts with

ASSUMPTION (continued)

generic drug companies expire on either 5-31-03 or 6-30-03. DOH states many of the generic companies have notified the program they will withdraw from the program at the end of this contract period if the rebate percentage for generic companies is not reduced to 11%. Therefore, the assumption made by Mercer, Inc and DOH is that if the rebate reduction for generic companies is not passed, generic companies will withdraw from the program, thus making the program a brand name drug only program for FY 04 and beyond. DOH and Mercer also assume the primary factor driving the estimated savings in total program costs is the increase in the average cost of a prescription resulting from only brand name drugs being available. By removing the generic medications from the program, Mercer, Inc estimated the average cost of the prescription will increase from \$74 to \$88 in FY 04; from \$80 to \$95 in FY 05; and from \$86 to \$102 in FY 06.

DOH assumptions in calculating cost savings:

Population

- Estimates for the total number of seniors in Missouri were based on the 1990 and 2000 census projected forward through SFY06.
- The total senior population in Missouri grows by an average of 3% per year.
- Estimated enrollment is assumed to be 22,000 in SFY04; 28,325 in SFY05 and 31,160 in SFY06.

Claim Costs/Trends/Financial Analysis

- Discounts are legislated at 10.43% of AWP (Average wholesale price) for brand and 20% of AWP for generic drugs.
- Rebates are provided at 15% of AMP (Average manufacturer's price) for brand and generic drugs in SFY03.
- Rebates are provided at 15% of AMP for brand drugs and 11% of AMP for generic drugs in SFY04, SFY05 and SFY06.
- Generic manufacturers will be willing to participate in the program if the rebate amount is reduced from 15% to 11%.
- There is a 6 month lag in rebate payments.
- Dispensing fee of \$4.09 per prescription.
- Projected yearly number of scripts per person--40 scripts per participant per year in FY03 in total (of which the program benefits will cover 30 scripts per participant per year)

43 scripts per participant per year in FY04 in total (of which the program benefits will cover 34 scripts per participant per year).

–Number of scripts per participant per year is trended at 8% to SFY05 and 7.5% to SFY06.

ASSUMPTION (continued)

--Projected average cost per script \$69 in FY03 (before discounts & rebates); \$74 in FY04 if the legislation passes and \$88 if the legislation does not pass (before discounts & rebates).

--Average cost per script is trended at 8% to SFY05 and 7.5% to SFY06.

The DOH states the program savings will be \$5,200,000 in FY 03; \$6,200,000 in FY 04; and \$6,500,000 in FY 05.

Oversight was not provided the Mercer, Inc assumptions since this information is proprietary information of Mercer, Inc. **Oversight** does not have the detail information to recalculate the saving and cannot validate the DOH response. **Oversight** is presenting the cost savings as provided by the DOH.

Official from the **Secretary of State Office (SOS)** state this proposal modifies the rebate amounts given for prescription drugs under the Senior Rx Program and could result in the Department of Health and Senior Services promulgating more rules. These rules would be published in the *Missouri Register* and the *Code of State Regulations*. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Health and Senior Services could require as many as eight (8) pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* as in the Code because cost statements, fiscal notes and the like are not repeated in Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is \$23. The estimated cost of a page in the Code is \$27. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn. SOS officials estimate total costs for FY 04 to be \$492 [(8 pages x \$27) + (12 pages x \$23)].

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
SENIOR Rx FUND			
<u>Savings - Department of Health and Senior Services</u>			
Program Savings	<u>\$5,200,000</u>	<u>\$6,200,000</u>	<u>\$6,500,000</u>
ESTIMATED NET EFFECT ON SENIOR Rx FUND	<u>\$5,200,000</u>	<u>\$6,200,000</u>	<u>\$6,500,000</u>
FEDERAL REIMBURSEMENT ALLOWANCE FUND			
<u>Income - Department of Social Services</u>			
Assessment of hospitals	\$0	\$409,332,650	\$545,776,867
<u>Costs - Department of Social Services</u>			
Program specific expenditures	<u>\$0</u>	<u>(\$409,332,650)</u>	<u>(\$545,776,867)</u>
ESTIMATED NET EFFECT ON FEDERAL REIMBURSEMENT ALLOWANCE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
FEDERAL FUNDS			
<u>Income - Department of Social Services</u>			
Medicaid match	\$0	\$653,041,215	\$870,721,620
<u>Costs - Department of Social Services</u>			
Program specific expenditures	<u>\$0</u>	<u>(\$653,041,215)</u>	<u>(\$870,721,620)</u>

**ESTIMATED NET EFFECT ON
FEDERAL FUNDS**

\$0

\$0

\$0

FISCAL IMPACT - Local Government

FY 2004

FY 2005

FY 2006

\$0

\$0

\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal extends the sunset date for the federal reimbursement allowance for hospitals from September 30, 2004, to September 30, 2006.

This proposal modifies the rebate amount for prescription drugs in the Missouri Senior Prescription Program. Current law requires pharmaceutical manufacturers participating in the Senior Prescription Program to pay a rebate of 15% on all prescription drugs. This proposal changes the rebate amount to 15% for brand name drugs and 11% for generic drugs for transactions occurring on or after July 1, 2003.

This act contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Social Services
Department of Health and Senior Services
Department of Mental Health

L.R. No. 1125-02
Bill No. SCS for HB 286
Page 7 of 7
April 21, 2003

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
April 21, 2003